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present very unsatisfactory situation as regards international communications.

(5) "A penny saved is a penny earned" says the proverb. If through coöperation with the Allies we can be enabled to save several hundred million dollars a year, that is as desirable as for them to pay us the same number of dollars. In fact, from an economic standpoint, it is much more desirable. The greatest expenditure in respect of which a saving is possible is expenditure for armament. It would seem quite appropriate that in any general discussion seeking to express in terms other than dollars the ways by which the American people may be benefited by the action of foreign nations, consideration should be given to the general question of limitation of armament. If an understanding could be arrived at which would lead us to curtail our expenditure for armament, we would be quite justified in regarding that result as of the greatest financial value. I do not mean to say that we can crudely "buy off" other nations; but it would mark definite progress toward the realization of our national policy if some general contribution on our part would promote such an international understanding and good will as would permit us to effect a saving on armament and permit our debtors to make

a similar saving. This, incidentally, would facilitate their meeting those obligations to us which would remain expressed in dollars.

The obligations of the Allies which we hold constitute a great trust to be held and employed by our government for the benefit of the American people. It is not a power to be abused, any more than it is a power to be abandoned. It is a power which should be used in the way which will in the long run produce the greatest gain to the American people. The greatest gain is not necessarily one which can be measured by the yard stick of dollars and cents; nor is a gain any less valuable because it involves benefit rather than burden to others.

If we would secure the greatest gain to the American people, let us first formulate a sound national policy. Then let us sit down in conference with the Allies and endeavor to secure their adhesion to international settlements which will render possible the carrying forward of our national policy. If such a settlement can be arrived at and if we regard their debts to us as in part discharged by the benefits which such a settlement would confer, this would not be an abandonment of our rights. Rather, we will have attained the highest form of realization.

Cancellation of European War Debts to the United States

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WAR obligations of European governments to the government of the United States, including principal and accumulated interest, total approximately \$11,000,000,000. In addition to this sum, American exporters,

bankers and others are creditors on foreign account, chiefly private, to the amount of possibly \$3,000,000,000 to \$4,000,000,000. This latter sum is not directly involved in this discussion, but is indirectly affected. While some of

it is due from Latin America and other parts of the world, a considerable part is owed us by Europe.

Viewed merely as a total sum due by outsiders to a country as large and wealthy as the United States, these items need cause little concern. In 1914 Great Britain held foreign investments totaling perhaps \$10,000,000,000, while Europe as a whole was probably creditor to the extent of \$20,000,000,000. It is not the size of the obligation but the attendant circumstances that are of significance. What are some of these circumstances?

The debts in question fall into two groups—the amount due from Great Britain, which is something less than half of the total—and the sums due from the Continental governments. The latter obligations include those of Belgium, Czecho-Slovakia, France, Greece, Italy, Roumania, Russia and Serbia, of which the debts of France and Italy are most important. If there is to be included the sums due our government on account of sale of surplus war supplies, there should be added to the list Estonia, Latvia, Lithuania, Poland, and the Croats and Slovenes. This Continental situation may be examined first, the British later.

THE CONTINENTAL DEBT

There is little occasion to explain the reasons for centering attention on France. The amounts due from France are the largest, and the general situation in Europe is closely dependent on conditions in France.

Space does not permit elaborate discussion of the French situation. In spite of a marked improvement in the last three years her productivity is still far below the pre-war level. An import balance of from 1,500,000,000 to 2,000,000,000 francs before the war was over 21,000,000,000 francs in 1919,

and over 8,000,000,000 francs for the first half of 1920. In the first four months of 1921 there has been an export balance of 282,000,000 francs. This is a remarkable change and it is difficult to believe that it is a permanent one.

The note issues of the Bank of France have increased from 6,683,000,000 francs before the war to over 38,000,000,000 francs today. Advances by the Bank of France to the state (for war and post-war needs) amount to over 26,000,000,000 francs. There is a total government debt of 302,743,000,000 francs, compared with a pre-war debt of 27,000,000,000 francs. There seems to be abundant warrant for the prevalent opinion that France can not pay even the interest on her external obligations for many years to come. This external debt amounted on March 1, 1921 to 83,245,000,000 francs (at rate of exchange of February 28, 1921). That the situation is rapidly becoming acute is evidenced by the recent statement attributed by the press to the Chairman of the Finance Committee of the French Senate. He stated that France must find 58,000,000,000 francs this year with an estimated revenue of only 22,000,000,000 francs. She is carrying a deficit of 38,000,000,000 francs already spent on the prospects of German payment and 16,000,000,000 more is carried in this year's budget to the same account. He argues that Germany must pay or French finances are in a hopeless condition. Some of the people of France apparently rely upon these payments from Germany as a relief. The prospects are certainly dubious.

This statement by the Chairman of the Finance Committee of the French Senate is reënforced by the following from Charles D. Westcott, economist consul at Paris. It appeared in a report to the Bureau of Foreign and

Domestic Commerce and was quoted in *The Journal of Commerce and Commercial Bulletin* of May 19, 1921.

The present fiscal condition of the French Government is seriously involved. The probable deficit in the budget for 1921, due chiefly to nonpayment of German indemnities confidently relied upon to meet urgent financial requirements, is estimated unofficially at about 20,000,000,000 francs (franc equals \$0.193 at par; exchange value on October 1, 1920, equalled \$0.0667). Hence additional public loans to cover that deficit will probably be necessary during the current year.

What conclusions seem warranted? First there is at present no reason to anticipate that reparation demands of the Allies will be prepared with due consideration for the real economic situation. Their past errors may have been due in part to their inability to analyze conditions accurately, but there has also been the inexorable pressure of public sentiment that would not and probably will not tolerate a moderate settlement.

Second, there is serious reason for believing that the Allied leaders do not really wish to accept the payment of reparations. One country can make payment to another in only four ways —by the delivery of gold, securities, commodities or services. Germany has neither gold nor securities to an amount sufficient to aid materially, and Captain Dulles¹ points out that the Allies seem to be unwilling to accept either commodities or services. The British shipbuilding industry is depressed by the offering of German ships in settlement and the Allied reparation experts have now recommended the abandonment of the clauses of the Treaty which require Germany to construct new tonnage for delivery to the Allies. They also recommend that Germany be relieved

from delivering further shipping which was in existence when the Treaty came into force, and even that some of the shipping which she has already delivered be returned to Germany.

British coal interests resent the competition of German coal deliveries that lower cost of production for French industries, and as French coal fields are restored French interests, too, may object. French manufacturers similarly object to the loss they suffer by the delivery of German machinery and reconstruction material under the Treaty, and French labor has definitely objected to the importation of German labor for reconstruction work in northern France.

Whether this attitude is a reasonable one for French interests to take, we need not now inquire. With the passage of years of time this attitude may alter, but not soon enough to ward off the disaster that now threatens.

SHOULD THE DEBT BE CANCELLED?

All this is preliminary to the question: Should the French debt to the United States Government be cancelled?

The first part of the answer is that for years to come France can not pay even the interest. Default on interest payments may be disguised in some way but the interest will not be paid. Added to the principal of the debt the burden will grow, increasing the irritation toward us that is already noticeable in the French press.

Next is the question of our desire to receive payments, which must for the most part be made with commodities. France and England are objecting to such payments by Germany and the United States will probably take a similar view towards payments by Europe to us. Every group of producers in the United States that suffers the competition of imports from Europe

¹See page 173.

will protest. Growers of citrus fruit in California object to the importation of Sicilian lemons and ask for a tariff. Manufacturers of steel urge lower freight rates to the Pacific coast because Belgian steel is appearing in the San Francisco markets. Manufacturers of textiles in Philadelphia do not want the payments made with woolen and cotton goods. The imports to date have been relatively slight but there is a demand from all sides that the tariff wall be heightened as promptly as possible.

The answer seems to be that we could not collect the Continental debts if we would and we probably would not if we could. The sooner we realize the fact and acknowledge it, at least to ourselves, the better. The real problem is not whether to cancel these debts but how soon and in what manner to announce the fact.

Important as \$11,000,000,000 may be there are other things far more important. We live in a world whose organization is most intricate. If abundant time were at our disposal the Germans could, if they would, pay all or more than they have recently agreed to pay—perhaps even as much as the Allies demanded a little earlier. But we do not have plenty of time, and such amounts as Germany can pay the Allies or as they perhaps could pay us can not quickly be received without more hardship and suffering to our established domestic industries than it is wise for us to permit. The wrench is a terrific one in any case.

Another fact to remember is that a very unstable credit situation exists. We are accustomed to extol credit transactions very highly and marvel at the wonderful results that come from the practice of extending loans. But from time to time the relations between debtor and creditor become too strained. Outstanding promises be-

come too large and too numerous and can not be kept. When a knowledge of this begins to spread there appears a crisis during which business failures become numerous. When governments are in a similar predicament and can not pay we call it repudiation.

Today the credit situation between individuals, corporations and banks is an acute one although we have been carried along thus far in a remarkable manner. Government obligations to private individuals direct and indirect in the form of bank notes, bonds, treasury bills and otherwise are beyond the power of many of them to pay. In addition there are these huge obligations of some governments to others. Some of these promises can not and will not be kept. If any agreements can be reached by which some of them can be adjusted it will be the safer thing by far.

But on what terms? That is in part a question for the statesmen, but one or two suggestions at least can be made.

There are two things the United States can offer: One is cancellation or at least reduction of these debts and the other is participation in the League of Nations. In reply she can fairly ask an adjustment of the reparation payment by Germany to an amount that will be agreed to as more reasonable than the one agreed to by Germany last May and one that can be paid within the life time of the present generation. She can also take the leadership in urging or even demanding as a *quid pro quo* that there be a sharp curtailment in military expenditures both for army and navy.

GREAT BRITAIN'S DEBT

Reference thus far has been made only to the Continental debts. The economic and fiscal condition of Great Britain is by no means so acute as that on the Continent. Her debt to us is

in a different class. Instead of cancelling it we should permit a considerable delay before interest payments are started, giving our industries time to adjust themselves gradually to the changed situation. The debt should however be funded into long term issues and then as rapidly as practicable be sold to the general public, an earnest

attempt being made to market them abroad rather than to have them concentrated among American owners. In any case our government should hold the promises no longer than necessary. The debt will be a source of far less irritation in the hands of the general public than if held by the government.